Chapman & Verwey

CHARTERED ACCOUNTANTS

Financial Statements of

# LEAF RAPIDS TOWN PROPERTIES LTD.

Year ended March 31, 2001

105-02332/

Chapman & Verwey
CHARTERED ACCOUNTANTS

Telephone (204) 857-6861
Toll Free 1-800-897-6246
Fax (204) 239-6226

Email: chapman@portage.net

201 Bell Building
32 Tupper Street North
Portage la Prairie, Manitoba
R1N 1W8

# AUDITORS' REPORT TO THE PROVINCIAL AUDITOR

We have audited the balance sheet of Leaf Rapids Town Properties Ltd. as at March 31, 2001 and the statements of income and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chapman & Verwey

Chartered Accountants

Portage la Prairie, Manitoba
December 14, 2001

# LEAF RAPIDS TOWN PROPERTIES LTD.

Balance Sheet

March 31, 2001, with comparative figures for 2000

| | 2001 | 2000 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and short-term deposits | $ 1,441,336 | $ 1,482,495 |
| Accounts receivable | 70,088 | 45,836 |
| GST recoverable | 1,099 | - |
| Prepaid expenses | 27,850 | 54,055 |
| Current portion of note receivable (note 2) | 13,500 | - |
| | 1,553,873 | 1,582,386 |
| Developed lots held for resale (note 1(c)) | 1 | 1 |
| Note receivable from Leaf Rapids Community Development Corporation (note 2) | 60,781 | - |
| Capital assets (note 3) | 338,074 | 296,286 |
| | $ 1,952,729 | $ 1,878,673 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 130,606 | $ 163,601 |
| Deferred revenue | 35,375 | 34,831 |
| GST payable | - | 4,736 |
| Current portion of obligation under capital lease (note 4) | 4,700 | - |
| | 170,681 | 203,168 |
| Long-term debt (note 6) | 1,498,577 | 1,498,577 |
| Obligation under capital lease (note 4) | 5,437 | - |
| | 1,674,695 | 1,701,745 |
| Shareholders' equity: | | |
| Capital stock (note 5) | 2,621,100 | 2,621,100 |
| Deficit | (2,343,066) | (2,444,172) |
| | 278,034 | 176,928 |
| | $ 1,952,729 | $ 1,878,673 |

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

# LEAF RAPIDS TOWN PROPERTIES LTD.

Statement of Income and Deficit

Year ended March 31, 2001, with comparative figures for 2000

| | 2001 | 2000 |
|---|---|---|
| Revenue: | | |
| Rentals | $ 275,148 | $ 257,394 |
| Cost recoveries | 561,208 | 500,133 |
| | 836,356 | 757,527 |
| Expenses: | | |
| Administration fees and expenses | 43,574 | 47,923 |
| Amortization | 43,248 | 66,389 |
| Bad debts | 23,369 | 52,097 |
| Insurance | 25,909 | 25,201 |
| Janitorial | 72,821 | 66,809 |
| Professional fees | 14,260 | 7,293 |
| Property taxes | 102,980 | 73,456 |
| Repairs and maintenance | 116,181 | 90,741 |
| Salaries and benefits | 139,291 | 138,516 |
| Snow removal | 9,683 | 7,419 |
| Sundry | 2,794 | 5,198 |
| Supplies and office | 24,719 | 18,078 |
| Telephone | 6,381 | 5,862 |
| Utilities | 95,940 | 92,269 |
| Vehicle and travel | 10,676 | 12,076 |
| | 731,826 | 709,327 |
| Income from operations | 104,530 | 48,200 |
| Other (expense) revenue: | | |
| Corporation capital tax | (4,097) | (8,193) |
| Interest, net (note 7) | 5,461 | (11,499) |
| Consulting fees | (7,014) | (938) |
| Other | 2,226 | 3,845 |
| | (3,424) | (16,785) |
| Income before write down of capital assets | 101,106 | 31,415 |
| Write down of capital assets to net realizable value (note 11) | - | (1,188,410) |
| Net income (loss) | 101,106 | (1,156,995) |
| Deficit, beginning of year | (2,444,172) | (1,287,177) |
| Deficit, end of year | $ (2,343,066) | $ (2,444,172) |

See accompanying notes to financial statements.

# LEAF RAPIDS TOWN PROPERTIES LTD.

Statement of Cash Flows

Year ended March 31, 2001, with comparative figures for 2000

| | 2001 | 2000 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net income (loss) | $ 101,106 | $ (1,156,995) |
| Items not involving cash: | | |
| Write-down of capital assets to net realizable value (note 11) | - | 1,188,410 |
| Amortization | 43,248 | 66,389 |
| | 144,354 | 97,804 |
| Net change in non-cash operating working capital: | | |
| Accounts receivable | (24,252) | 3,799 |
| GST payable | (5,834) | 5,164 |
| Prepaid expenses | 26,204 | (24,812) |
| Accounts payable and accrued liabilities | (32,995) | 29,651 |
| Deferred revenue | 544 | 14,949 |
| | (36,333) | 28,751 |
| | 108,021 | 126,555 |
| Investing activities: | | |
| Additions to capital assets | (85,036) | (105,591) |
| Note receivable from Leaf Rapids Community Development Corporation | (74,281) | - |
| | (159,317) | (105,591) |
| Financing activities: | | |
| Obligations under capital lease | 11,221 | - |
| Payments on capital lease | (1,084) | - |
| | 10,137 | - |
| (Decrease) increase in cash and short term deposits | (41,159) | 20,964 |
| Cash and short term deposits, beginning of year | 1,482,495 | 1,461,531 |
| Cash and short term deposits, end of year | $ 1,441,336 | $ 1,482,495 |
| Additional information: | | |
| Interest paid | $ 74,939 | $ 22,866 |

See accompanying notes to financial statements.

# LEAF RAPIDS TOWN PROPERTIES LTD.

Notes to Financial Statements

Year ended March 31, 2001

**Nature of operations:**

Leaf Rapids Town Properties Ltd. was incorporated in 1971 under The Manitoba Companies Act. It was charged with the responsibility for the planning, design and development of the community of Leaf Rapids. Since the completion of the development, the Corporation has managed, leased and operated its physical assets and properties in Leaf Rapids.

**1. Significant accounting policies:**

The Corporation's financial statements have been prepared using generally accepted accounting principles. The significant accounting policies are as follows:

(a) Management estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in income in the period in which they become known.

(b) Capital assets:

Capital assets are stated at cost, less accumulated amortization and write downs. Certain capital assets were written down to their net realizable value in 2000, as explained in note 11.

Amortization is provided on a straight-line basis over the estimated remaining useful lives of the assets.

| Asset | Rate |
|---|---|
| Commercial Building | 4 years |
| Equipment | 3 - 10 years |

**1. Significant accounting policies (continued):**

(c) Developed lots:

Developed lots held for resale were writtten down, in a previous year, to a nominal value of $1. Property taxes and any other related costs are charged to operations.

(d) Pension expense:

The Corporation participates in a multi-employer pension plan. Pension expense is equal to the Corporation's annual funding of the pension plan.

**2. Note receivable:**

During the year, the Corporation provided financing to the Leaf Rapids Community Development Corporation for the renovations to the dental clinic.

| | | |
|---|---|---|
| 8.5% note receivable, at $1,515 per month, including principal and interest, maturing March 2006 | $ | 74,281 |
| Current portion of note receivable | | 13,500 |
| | $ | 60,781 |

**3. Capital assets:**

| | Cost | Accumulated Write Down | Accumulated Amortization | 2001 | 2000 |
|---|---|---|---|---|---|
| Commercial Properties: | | | | | |
| Land | $ 478,765 | $ 336,658 | $ - | $ 142,107 | $ 142,107 |
| Building | 1,566,316 | 497,799 | 1,017,932 | 50,585 | 6,699 |
| Equipment | 14,246 | - | 8,081 | 6,165 | 7,706 |
| Non-Commercial Properties: | | | | | |
| Land | 414,692 | 414,692 | - | - | - |
| Building | 4,701,479 | - | 4,701,479 | - | - |
| Other Property: | | | | | |
| Land | 82,301 | 32,301 | - | 50,000 | 50,000 |
| Building | 857,752 | 321,652 | 536,100 | - | - |
| Equipment | 198,371 | - | 109,154 | 89,217 | 89,774 |
| | $ 8,313,922 | $ 1,603,102 | $ 6,372,746 | $ 338,074 | $ 296,286 |

**4. Obligation under capital lease:**

The following is a schedule of minimum lease payments under the capital lease, expiring March 2003, together with the balance of the obligation under the capital lease:

| | | |
|---|---|---|
| 2002 | $ | 5,819 |
| 2003 | | 5,818 |
| Total minimum lease payments | | 11,637 |
| Amount representing interest | | 1,500 |
| Net minimum lease payments | | 10,137 |
| Current portion of obligation under capital lease | | 4,700 |
| | $ | 5,437 |

**5. Capital stock:**

| | 2001 | 2000 |
|---|---|---|
| Authorized: | | |
| 40,000 common shares, not to exceed $40,000 | | |
| 26,210 8.15% non-cumulative redeemable preferred voting shares, not to exceed $2,621,000 with a redemption price of $100 per share | | |
| Issued and fully paid: | | |
| 100 common shares | $ 100 | $ 100 |
| 26,210 preferred shares | 2,621,000 | 2,621,000 |
| | $ 2,621,100 | $ 2,621,100 |

Ownership: All issued shares are held by the Minister of Finance of the Province of Manitoba.

## 6. Long-term debt:

Long-term debt payable to the Province of Manitoba consists of $1,498,577 in 10% income debentures, secured by a floating charge on all assets of the corporation. Annual installments against this debt are determined based on one-half of the prior year's cash flow from operations. Cash flow is defined as net income from operations, plus amortizaton expense, less the installment amount paid in the year.

Interest expense is recorded as an accrual each year end, based on the required annual installment that becomes due and payable subsequent to each fiscal year. If the required annual installment exceeds 10% of the outstanding long-term debt, the amount in excess of 10% is applied against the outstanding principal and the remainder is recorded as interest expense. If the required annual installment is less than 10% of the outstanding long-term debt, the full amount of the installment is recorded as interest expense. The difference between that recorded interest expense and 10% of the debt is not recorded and is non-cumulative. For the year ended March 31, 2001, the accrued interest expense amounted to $69,416. The difference between the interest expense of $69,416 and 10% of the long-term debt is $80,441.

## 7. Interest expense - net:

| | 2001 | 2000 |
|---|---|---|
| Interest expense | $ (69,416) | $ (74,939) |
| Interest revenue | 74,877 | 63,440 |
| | $ 5,461 | $ (11,499) |

## 8. Related party transactions:

As stated in note 5, all issued shares of the Corporation are held by the Minister of Finance of the Province of Manitoba. In addition, the long-term debt and related interest described in note 6 are payable to the Province of Manitoba. The interest income described in note 7 is earned on short term deposits held by the Province of Manitoba. The Corporation also has the following balances with the Province of Manitoba and its agencies reflected in these financial statements as at March 31, 2001. These transactions and balances are in the normal course of operations and are measured at the exchange amount agreed to by the related parties.

8. **Related party transactions (continued):**

| | 2001 | 2000 |
|---|---|---|
| Short term deposits | $ 1,325,004 | $ 1,345,997 |
| Accounts receivable | 8,855 | 9,643 |
| Accounts payable | 95,948 | 89,511 |

9. **Subsequent event:**

The viability of the Corporation has depended on the ongoing successful operation of the Ruttan Mine. Based on information known in 2000, existing ore reserves were expected to continue for another four years. Accordingly, in 2000, management wrote down certain capital assets to reflect this uncertainty and in 2001 commenced amortizing buildings over four years.

On October 29, 2001, the owner of the Ruttan Mine announced that it would be shutting down the mine in May 2002. A number of alternatives are currently being reviewed by the Town of Leaf Rapids for the utilization of the mine and / or the utilization of available housing in the Town. The ongoing viability of the Corporation will depend on the outcome of the implementation of the alternatives currently being reviewed.

10. **Financial instruments:**

a) Credit risk:

The Corporation is exposed to credit risk on the accounts receivable from its customers. An allowance for doubtful accounts has been established by the Corporation, based upon factors surrounding the credit risk of specific customers, historical trends and other information.

b) Fair value:

Due to the short-term nature of all financial instruments, other than long-term debt, the carrying values as presented in the financial statements are reasonable estimates of fair value. Management has estimated fair value by reference to established financial markets. As is true for all estimates, actual fair value could differ from this estimate and, if so, any difference would be accounted for in the period in which it becomes known. For long-term debt, it is not practical within constraints of timeliness or cost to determine the fair value with sufficient reliability because the instruments are not traded in an organized financial market.

**11. Write down of capital assets to net realizable value:**

During 2000, the Corporation determined the net realizable value of the Town Centre land to be $100,000, the equivalent of the maximum price it would receive should it sell the land. Accordingly, in 2000, the Town Centre land was written down by $123,996. The industrial park land, the mobile home park land, the Town Centre buildings and the commercial buildings were written down in 2000 to estimated future cash flows from operations. The cost of these assets was written down in 2000 by $1,064,414.